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Message Text

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ACTION EB-08

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FM AMEMBASSY LONDON
TO SECSTATE WASHDC NIACT IMMEDIATE 7251
INFO AMEMBASSY BRUSSELS
AMEMBASSY MEXICO
USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 04 LONDON 09610

DEPT PASS ELECTRONICALLY FOR USDA HAT//HAWAY AND STR WOLFF

USEEC ALSO FOR EMBASSY

MEXICO PASS AGATT FOR STARKEY

MTN

E.O. 11652: GDS
TAGS: EAGR, ETRD, OCON
SUBJECT: GRAIN NEGOTIATIONS - INTERIM COMMITTEE

REF: (A) LONDON 9361 (B) LONDON 9229 (C) LONDON 9608

1. SUMMARY. AS BACKGROUND FOR TRILATERAL MEETING NEXT WEEK IN WASHINGTON, WE WILL SUMMARIZE CURRENT STATUS OF NEGOTIATIONS IN THE INTERIM COMMITTEE. IN FULL COMMITTEE AND SMALLER GROUPS, WORK CONTINUES ON A PAPER ON WHEAT WHICH SUMMARIZES ACTIONS ASSOCIATED WITH SIX POINTS IN CONFIDENTIAL

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THE PRICE INDICATOR SCALES (SEE REFTEL A). MAJOR OBSTACLES ARE LANGUAGE ON SUPPLY ASSURANCES AND NOTIONAL PRICES. SINCE PRESENTATION OF EC PAPER ON COARSE GRAINS (SEE REFTEL B), EC AND CHAIRMAN PRESSED ARGENTINA TO TABLE A REVISED VERSION OF ITS EARLIER PROPOSAL. ARGENTINA THEN DISTRIBUTED PRIVATELY TO EXPORTERS - AND THEN WITHDREW - A PAPER WITH COMMITMENT TO WORK OUT IN-

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DICATOR PRICES. OTHER EXPORTERS, INCLUDING U.S., HAVE URGED ARGENTINA NOT TO INCLUDE REFERENCES TO PRICE INDICATOR SCALE AND TRIGGER POINTS. AT PRESENT, AN ALTERNATIVE TO EC PROPOSAL HAS NOT BEEN PRESENTED. END SUMMARY.

2. NOTIONAL PRICES FOR WHEAT. A SEPARATE GROUP OF U.S., EC, ARGENTINA AND CANADA HAS WORKED ON TEXT WHICH EMBODIES THE NOTIONAL PRICE CONCEPT. AT PRESENT, U.S. AND EC HAVE AGREED ON FOLLOWING KEY SENTENCES: "IT IS INTENDED THAT THE MARKET SHOULD OPERATE FREELY WITHIN THE PRICE BAND SPECIFIED IN ARTICLE ( ) WITHOUT INTERVENTIONS. IF, HOWEVER, PRICES REACH SPECIFIED POINTS ALONG THE INDICATOR SCALE SET OUT IN THE SAID ARTICLE ( ), THEN CONSULTATIONS SHALL BE HELD AND/OR ACTIONS TAKEN, AS DESCRIBED IN THAT ARTICLE, WITH THE AIMS THAT STABLE CONDITIONS SHOULD BE RESTORED AND THAT INTERNATIONAL MARKET PRICES GENERALLY SHOULD REMAIN BETWEEN THE UPPER NOTIONAL PRICE AND THE LOWER NOTIONAL PRICE DETERMINED IN THE AGREEMENT." THIS TEXT HAS NOT YET BEEN DISCUSSED BY THE FULL COMMITTEE. HOWEVER, SEVERAL OUTSTANDING ISSUES HAVE BEEN IDENTIFIED: (A) THERE IS NO AGREEMENT ON HOW THE NOTIONAL PRICES THEMSELVES WILL BE DEFINED. U.S. FAVORS AN FOB PRICE NOT SPECIFYING LOCATION OR CLASS OF WHEAT; EC FAVORS AN FOB PRICE FOR ALL EXPORTERS ADJUSTED FOR QUALITY DIFFERENTIALS (REF C); CANADA WANTS ONLY A VERBAL CONFIDENTIAL

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DESCRIPTION OF THE NOTIONAL PRICE LEVELS; ARGENTINA OPPOSES AN FOB PRICE WITHOUT SPECIFIC DEFINITION. (B) CANADA ADAMANTLY INSISTS ON LANGUAGE WHICH INDICATES THAT THE CONVENTION WILL ATTEMPT TO HOLD PRICES IN THE RANGE BETWEEN THE RESERVE STOCK ACTION POINTS. MINER (CANADA) ARGUES THAT THE LOWER NOTIONAL PRICE, IF SPECIFIED AS A NUMBER, WILL BE SO LOW T/HAT THE AGREEMENT WOULD BE REJECTED BY CANADIAN PRODUCERS UNLESS IT IS CLEAR THAT THE CONVENTION WILL ATTEMPT TO HOLD PRICES WELL ABOVE THIS LEVEL. U.S. HAS ATTEMPTED TO FIND COMPROMISE BETWEEN CANADA AND EC ON THIS ISSUE SINCE CANADA'S LANGUAGE WOULD BE HELPFUL TO U.S., BUT EC HAS STRONGLY OPPOSED CANADA'S POSITION. EC APPARENTLY DOES NOT WANT ANY LANGUAGE THAT MIGHT DIMINISH ABILITY TO INTERPRET NOTIONAL PRICE EXTREMES AS SETTING PRICE OBJECTIVES FOR AGREEMENT.

3. SUPPLY ASSURANCES ON WHEAT. EC INSISTS THAT EXPORTERS MUST ACCEPT OBLIGATION TO SUPPLY "NORMAL IMPORT REQUIREMENTS", I.E., DATUM QUANTITIES, AND ARGUES THAT U.S. COULD DO THIS BY USING ITS AUTHORITY TO IMPOSE EXPORT CONTROLS, AS NECESSARY, AGAINST NONMEMBERS. EC ALSO WANTS A CONSULTATIVE PROVISION ON ADDITIONAL

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MEASURES EXPRESSED IN GENERAL TERMS WHICH DOES NOT REPEAT
NOT LIST SPECIFIC ACTIONS TO BE TAKEN, SUCH AS DISCOURAG-

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ING UTILIZATION OF WHEAT FOR FEED OR ELIMINATION OF PRO-
DUCTION RESTRAINTS. JAPAN HAS STATED THAT CONVENTION
ABSOLUTELY MUST INCLUDE A MANDATORY PROVISION ON ASSUR-
ANCE OF SUPPLIES AND HAS PROVIDED U.S. A PAPER ON VARIOUS
OPTIONS WHICH HIGHLIGHT EXCLUSION OF NONMEMBERS AS NECES-
SARY TO ASSURE TRADITIONAL IMPORT REQUIREMENTS OF
MEMBERS. U.S. HAS INDICATED THAT WE COULD ACCEPT OBLI-
GATION TO REFRAIN FROM USING EXPORT CONTROLS AGAINST
MEMBERS EXCEPT IN CASES OF NATIONAL EMERGENCIES AND
COULD ACCEPT A CONSULTATIVE MECHANISM THROUGH WHICH EX-
PORTERS WOULD ATTEMPT TO MAXIMIZE SUPPLY AVAILABILITY TO
MEMBERS. BUT WE STATED THAT WE COULD NOT ACCEPT SPECIFIC
QUANTITATIVE COMMITMENTS TO MEMBERS. CANADA SAID THAT IT
COULD ACCEPT PROVISION FOR "ASSURANCE OF SUPPLY" ONLY IN
SENSE OF BEST ENDEAVORS. WHEN PRESSED BY EC, CANADA SAID
THAT IT HAD THE ADMINISTRATIVE CAPABILITY TO ASSURE DATUM
QUANTITIES BUT THAT IT COULD NOT DO SO UNLESS SUCH A COM-
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MITMENT WAS BALANCED BY OTHER PROVISIONS IN THE CONVEN-
TION. U.S. DELEGATION IS WORKING WITH JAPAN AND CANADA
TO DEVELOP POSSIBLE LANGUAGE ON SUPPLY ASSURANCES.
4. PRICE LEVELS FOR WHEAT. EC AND JAPAN HAVE INSISTED
THAT MAJOR COUNTRIES MUST DECIDE PRICE LEVELS BY JUNE 22.
DURING A JUNE 16 KEY HEADS OF DELEGATION MEETING, EC
(JACQUOT) STATED THAT RESERVE STOCK SIZE, MEMBER COUNTRY
SHARES AND INDICATOR PRICE POINTS AS WELL AS UPPER AND
LOWER NOTIONAL PRICES MUST BE AGREED IN DETAIL - AT LEAST
AMONG 12 INTERIM COMMITTEE MEMBERS - BY JUNE 22. JACQUOT
ALLUDED TO MAJOR EXPORTER "PAPER", CIRCULATED AMONG OTHER
EXPORTERS, OUTLINING STRATEGY TO STALL ON SPECIFIC PRICES
AND STOCK SHARES DETERMINATION IN ORDER TO AVOID GRAINS
AGREEMENT BEFORE JULY 15. LACK OF SUCH SPECIFIC UNDER-
STANDING BY JULY 15 ACCORDING TO JACQUOT WOULD ROB EC AND
JAPAN OF OPPORTUNITY TO CLAIM "CREDIT" FOR GRAINS IN RE-
SPECT OF OTHER MTN ISSUES. PRIVATELY, EC PROPOSED
NOTIONAL LOWER AND UPPER PRICES OF $90-180 PER TON
(APPARENTLY FOB GULF). JAPAN PRIVATELY PROPOSED NOTIONAL
LOWER AND UPPER PRICES OF $80-200. IN ADDITION, JAPAN
INSISTED THAT ACCEPTANCE OF A WHEAT AGREEMENT WOULD BE
CONTINGENT ON THE STOCK ACQUISITION TRIGGER BEING SET
BELOW PREVAILING MARKET PRICES. CANADA STATED FIRMLY
THAT PRICE LEVELS COULD NOT BE SETTLED AT THIS SESSION.
U.S. INDICATED THAT WE WERE NOT IN POSITION TO DECIDE
PRICE LEVEL. PRIVATELY, EXPORTERS HAVE PRESSED U.S. FOR
AGREEMENT AMONG THE EXPORTERS ON T/HE PRICE LEVELS WHICH
WILL BE PROPOSED AT THE FULL CONFERENCE. U.S. HAS
PARTICIPATED WITHOUT COMMITMENT IN EXPORTER DISCUSSION
OF POSSIBLE PRICE LEVELS. IN THESE PRIVATE DISCUSSIONS,
OTHER EXPORTERS SEEM TO FAVOR A RESERVE STOCK ACQUISI-
TION PRICE AT ABOUT EQUIVALENT U.S. FARM GATE OF $3.10
PER BUSHEL ($140 PER TON ON INDICATOR SCALE). CANADA
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AND ARGENTINA SEEM TO FAVOR RESERVE STOCK RELEASE PRICE
AT ABOUT $4.75-5.00 FARM GATE ($200-210 ON INDICATOR
SCALE), BUT AUSTRALIA FEARS THAT THIS PRICE IS TOO HIGH.
AUSTRALIA ARGUES THAT, ESPECIALLY BECAUSE OF U.S.
FARMER-OWNED RESERVE, PRICES ARE VERY UNLIKELY TO REACH
THIS LEVEL AND THEREFORE THEY WOULD HAVE TO BEAR COST OF
HOLDING THE RESERVE INDEFINITELY. ALL OTHER EXPORTERS
ARE VERY CONCERNED ABOUT THE INTERACTION OF U.S. FARMER-
OWNED RESERVE AND SET-ASIDES WITH THE OBLIGATIONS OF THE
CONVENTION.

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5. OTHER WHEAT ISSUES. ON SECOND RISING AND SECOND FALLING PRICE POINT, A COMPROMISE WAS DEVELOPED ON ISSUE OF THE TEMPORAL RELATIONSHIP BETWEEN CONSULTATIONS AND A PRE-SPECIFIED RATE OF RESERVE RELEASE. COMMITTEE WILL MEET AFTER PRICE INDICATOR HITS TRIGGER; IF IT CANNOT REACH A DECISION ON A PROGRAM OF RELEASE WITHIN 2 DAYS, A PRE-SPECIFIED PROGRAM OF RELEASE WILL BEGIN. ON THE GUIDELINES FOR RESERVE STOCK RELEASE, THERE ARE THREE OUTSTANDING ISSUES: (A) ALL DELEGATIONS EXCEPT U.S. ACCEPT PROVISION THAT RESERVE WOULD BE RELEASED "FOR THE EXCLUSIVE USE OF MEMBERS". U.S. HAS INDICATED THAT THIS INVOLVES ADMINISTRATIVE DIFFICULTIES FOR US AND THAT WE MUST RESERVE POSITION UNTIL WE CAN EXAMINE THE BALANCE OF RIGHTS AND OBLIGATIONS. WE CAN ACCEPT THIS PHRASE PROVIDED THAT THE LANGUAGE ON SUPPLY ASSURANCES IS ACCEPTABLE TO US. (B) ALL DELEGATIONS EXCEPT U.S. AND JAPAN ACCEPT PROVISION THAT "PRIORITY WILL BE GIVEN TO THE IMPORT REQUIREMENTS OF DEVELOPING MEMBERS". U.S. HAS INDICATED THAT WE CANNOT AGREE IN PRINCIPLE TO CONCEPT OF "PRIORITY" UNTIL THE MECHANISM IS MADE CLEAR AND THAT WE CANNOT ACCEPT A MECHANISM WHICH INVOLVES PREFERENTIAL PRICING. U.S. AND JAPAN ARE WORKING IN SMALL

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GROUP WITH DEVELOPING COUNTRY DELEGATIONS TO ATTEMPT TO FIND COMPROMISE TEXT. WE COULD ACCEPT A PHRASE WHICH COULD IMPLY ONLY A CONSULTATIVE MECHANISM, E.G., "GIVING PRIORITY CONSIDERATION TO DEVELOPING MEMBERS" PROVIDED THAT THE PROVISION THAT "SUCH RELEASE SHALL BE AT PREVAILING MARKET PRICES" IS ACCEPTED BY DEVELOPING COUNTRIES. WE HAVE REFUSED TO AGREE TO STRONGER WORDING ON PRIORITY UNTIL THE NATURE OF OTHER SPECIAL PROVISIONS FOR DEVELOPING COUNTRIES IS SETTLED. AND (C) EGYPT HAS BRACKETED THE PROVISION THAT RESERVE RELEASE WOULD BE AT PREVAILING MARKET PRICES. TEXT ALSO INCLUDES MANDATE FOR "EXCHANGE OF VIEWS" ON "MEASURES TAKEN BY MEMBERS, INCLUDING THOSE HAVING LONG-TERM EFFECTS", I.E., PRODUCTION CONTROLS.

ON THE CREDIBILITY OF EFFECTIVELY STABILIZING PRICES WITH AN INTERNATIONALLY COORDINATED RESERVE STOCK MECHANISM, IT WAS DISAPPOINTING TO LEARN THAT THE CONFIDENTIAL

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EC VIEWS STOCKS AS A FACADE. JACQUOT CITED AN EC GENERATED COMPUTER STUDY WHICH CONCLUDED THAT A 30 MILLION TON RESERVE STOCK WOULD HAVE NO MARKET STABILIZING INFLUENCE AND IN FACT MIGHT BE DESTABILIZING. CONFERENCE CHAIRMAN DUNKEL SUPPORTED THIS VIEW BY ADDING THAT SIMILAR RESULTS WERE ACHIEVED BY INDIAN STUDIES AND MORE GENERALLY THAT LDC PARTICIPANTS WERE NOT CONVINCED THAT OVERALL STOCK SIZE WAS A SIGNIFICANT FACTOR. DUNKEL CONTENDED THAT INDIA FOR INSTANCE WAS PLAYING THE STOCKS GAME PURELY OUT OF SELF-INTEREST WITHOUT REGARD TO POSSIBLE COLLECTIVE BENEFITS. EC OFFERED THAT THEIR RESERVE SHARE WOULD BE 2.3 MILLION TONS AND THAT THEY WERE PREPARED TO DISCARD THE DEBATE ON OVERALL STOCK SIZE. EMPHASIS SHOULD BE SHIFTED, IT WAS SUGGESTED, AWAY FROM THE NEGOTIATION OF SHARES BASED ON FACTOR FORMULATION TO SHARES BASED ON POLITICAL OFFERS. CHAIRMAN DUNKEL CONCURRED AND URGED THE U.S. TO ACCEPT THIS PROCEDURES.

6. COARSE GRAINS CONVENTION. SINCE INTRODUCTION OF EC PAPER AND U.S. RESPONSE (REFTEL B) AND JUNE 13 COMMITTEE SESSION (REFTEL A), DISCUSSION OF COARSE GRAINS HAS BEEN LIMITED TO SMALLER GROUPS. IN CONSULTATION WITH OTHER EXPORTERS, ARGENTINA PREPARED TEXT FOR CONSULTATIVE ARRANGEMENT WHICH WOULD INCLUDE COMMITMENT TO WORK OUT PROVISIONS FOR PRICE INDICATORS, AND PRIVATELT DISTRIBUTED IT AS A "NON-PAPER" TO EXPORTERS. U.S. DELEGATION PRIVATELY MADE NUMEROUS SUGGESTIONS ON THE TEXT, AND INDICATED THE UNACCEPTABILITY OF ANY REFERENCES TO PRICE

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INDICATORS OR NOTIONAL PRICES. BUT ARGENTINA HAD ALREADY
TOLD US THEY HAD WITHDRAWN FROM THE CONCEPT IN THEIR
PAPER. WE HAVE ADHERED TO THE INSTRUCTIONS OF STATE
111112, AND MAINTAINED THE POSITION THAT, UNLESS EC IN-
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DICATES CLEAR INTENTION TO UNDERTAKE UTILIZATION ADJUST-
MENT MEASURES IN CONTEXT OF CONSULTATIONS, U.S. CANNOT
ACCEPT A PRICE INDICATOR SCALE OR NOTIONAL PRICES.
JACQUOT SAID THE EC IN EVIAN HAD ALREADY STATED TO US
ITS POSITION ON UTILIZATION ADJUSTMENT MEASURES AND THAT
ITS ANSWER STILL REMAINS "NO". WE BELIEVE THAT COMMIT-
MENTS ON MEANINGFUL UTILIZATION ADJUSTMENTS COULD ONLY
BE REACHED IN A BILATERAL CONTEXT SINCE PURELY CONSULTA-
TIVE ARRANGEMENT WOULD PRECLUDE POSSIBILITY FOR PRESENTA-
TIONAL REPRESENTATION OF SUCH COMMITMENTS. IN DISCUSSION
TO DATE, OTHER EXPORTERS HAVE SAID THAT THEY HAVE INDI-
CATED AS FIRMLY AND CLEARLY AS POSSIBLE THEIR OPPOSITION
TO MORE THAN A CONSULTATIVE ARRANGEMENT WITHOUT AN
INDICATOR SCALE. THEY AND JAPAN ARE CLEARLY COUNTING ON
THE U.S. TO REMAIN FIRM IN ITS POSITION.

7. DURING THE LAST FIVE DAYS OF T//E COMMITTEE, WE EXPECT
INTENSIVE WVRK TO CONTINUE IN SMALL GROUPS AND IN COM-
MITTEE IN AN EFFORT TO PRODUCE TWO DRAFTS OF THE CORE
OPERATIVE MECHANISMS OF AGREEMENTS: (A) ONE SUMMARIZING
THE ACTIONS TO BE TAKEN AT THE SIX ACTION POINTS ON THE
PRICE INDICATOR SCALE FOR WHEAT, INCLUDING A STATEMENT
OF THE AIM OF THE CONVENTION THAT PRICES SHOULD GENERAL-
LY REMAIN BETWEEN THE UPPER AND LOWER NOTIONAL PRICES;
AND (B) ANOTHER INCLUDING THE BASIC TEXT OF A CONSULTA-
TIVE COARSE GRAINS CONVENTION. WE EXPECT THAT THE FOL-
LOWING ISSUES WILL REMAIN UNRESOLVED: (A) EXACT MEANS
BY WHICH THE NOTIONAL PRICES FOR WHEAT
ARE EXPRESSED; (B) LEVELS OF THE PRICE ACTION POINTS FOR
WHEAT; (C) RESERVE STOCK SIZE AND SHARES; (D) DETAILED
LANGUAGE ON SUPPLY ASSURANCE FOR WHEAT; (E) SPECIAL PRO-
VISIONS FOR DEVELOPING COUNTRIES; (F) INCLUSION OF PRICE
INDICATORS AND/OR NOTIONAL PRICES IN A COARSE GRAINS
CONVENTION.

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8. THE GENERAL EC STRATEGY IS TO MAKE THE U.S. APPEAR UNREASONABLE BECAUSE IT WILL NOT ACCEPT QUANTITATIVE SUP-PLT ASSURANCES FOR WHEAT AND PRICE INDICATORS FOR COARSE GRAINS. IT IS FIRM CONVICTION OF DELEGATION THAT: (A) U.S. SHOULD NOT ACCEPT STRONGER COMMITMENTS ON SUPPLY ASSURANCES UNTIL IT IS CLEAR THAT IMPORTERS WILL ACCEPT BALANCING OBLIGATIONS. THUS FAR, THE WHEAT CONVENTION INCLUDES NO CONTRIBUTIONS FROM IMPORTERS OTHER THAN ACCEPTANCE OF THE PRINCIPLE THAT THEY WILL HOLD RESERVE STOCKS; (B) U.S. SHOULD NOT ACCEPT PRICE INDICATOR IN COARSE GRAINS CONVENTION BECAUSE THE EC HAS GIVEN NO IN-DICATION OF A WILLINGNESS EITHER TO IDENTIFY OR TO ACCEPT UTILIZATION ADJUSTMENT MEASURES OR OTHER FORMS OF EXPANDED MARKET OPPORTUNITIES. SUCH AN IMPLICIT INTER-NATIONAL COMMITMENT ON THE PRICE BAND WITHIN WHICH THE U.S. WILL OPERATE ITS DOMESTIC SYSTEM WITHOUT EVIDENT

EC ACCESS CONCESSION WILL LIKELY MAKE AN AGREEMENT UNAC-

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CEPTABLE TO THE U.S. INDUSTRY. FURTHERMORE, THE RESEMBLANCE OF SUCH A COMMITMENT TO ECONOMIC PROVISIONS AS WELL AS THE JUSTIFICATION OF SPECIFIC PRICE LEVELS WOULD CREATE PRESENTATION PROBLEM VIS-A-VIS U.S. INDUSTRY. THE RISK OF U.S. INDUSTRY ALIENTATION COULD FURTHER ERODE THEIR WILLINGNESS TO SUPPORT OVERALL PACKAGE.

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